



**DEPARTMENT OF MENTAL HEALTH
HABILITATION CENTER MANAGEMENT**

**From The Office Of State Auditor
Claire McCaskill**

Department could save from \$5 to \$6.9 million annually (in state and federal money) by reducing operating costs for centers for developmentally disabled residents.

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PERFORMANCE AUDIT



Office of
Missouri State Auditor
Claire McCaskill

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Operation costs could be reduced for the state's habilitation centers housing residents with developmental disabilities

Currently, Missouri residents with developmental disabilities can be placed in one of the division's six habilitation centers or into contractor-operated facilities in their own communities. During fiscal year 2002, the cost of serving the 1,284 residents of state-operated campus facilities was \$113.4 million. Due to state budget cuts, the Division of Mental Retardation and Developmental Disabilities needs to assess its programs. The following highlights the findings:

State operated on-campus residential services should have operating costs examined

If the division decides to close one facility, about \$5 to \$6.9 million (about \$2 to \$2.7 million in state funds and \$3 to \$4.2 million in federal funds) in annual operating costs could be saved. Habilitation center officials said renovations at four of the five remaining facilities could add a sufficient number of Medicaid certified beds to accommodate residents from the closed facility. (See page 3)

Division officials have initiated actions to streamline center operations

Division officials said they have begun a phased approach in deliberate stages to streamlining and reorganizing the habilitation center system. However, the division officials had no written plan to show how or when overall reorganization would take place or the most cost beneficial approach to reorganization. (See page 5)

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During fiscal year 2002, it cost about \$113 million to operate the Division of Mental Retardation and Developmental Disabilities' (division) six habilitation centers, which provide residential care to about 1,300 residents with developmental disabilities. This report focuses on the extent these facilities were operated in a cost-effective manner. Specifically, our objective was to determine if any of the current division operated habilitation centers can be operated more economically.

The division's six habilitation centers represent the most costly option to provide residential care to individuals with developmental disabilities. During fiscal year 2002, it cost on average \$88,253 per resident to care for habilitation center residents.

We found the division could potentially save from \$5 to \$6.9 million annually by reducing operating costs of the habilitation centers. The division has begun a phased program for streamlining and reorganizing the habilitation center system.

We conducted the audit in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such tests of the procedures and records as were considered appropriate under the circumstances.

Claire McCaskill
State Auditor

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RESULTS AND RECOMMENDATION

Operation Costs Could be Substantially Reduced for the State's Habilitation Centers Housing Residents with Developmental Disabilities

Due to budget cuts, the Division of Mental Retardation and Developmental Disabilities (the division) needs to assess its programs. Information provided by division officials shows it is possible to increase the population at four of the six centers which could provide annual savings of \$5 to \$6.9 million (about \$2 to \$2.7 million in state funds and \$3 to \$4.2 million in federal funds). Division officials have begun a phased approach in deliberate stages to streamlining and reorganizing the habilitation center system. However, the officials had no written plan or cost analysis to show how or when overall reorganization would take place or the most cost beneficial approach to the reorganization. Recognizing that cost and level of care are two of many factors in resident placement, the division would have to decide if such savings are desirable and achievable.

State-operated on-campus residential services is a costly form of client habilitation

Currently, Missouri residents with developmental disabilities can be placed in one of the division's six habilitation centers, which are located in Higginsville, Marshall, Nevada, St. Louis (two locations, Bellefontaine and St. Louis Developmental Disabilities Treatment Centers), and Poplar Bluff/Sikeston,¹ or into contractor-operated facilities in their own communities. Analysis shows during fiscal year 2002, the average cost per resident in one of the six habilitation centers was about \$88,253, or a total of \$113.4 million for the 1,284 residents currently residing in the division's six habilitation centers.

Closing state-operated institutions is a national trend

A June 2002 national report on states' financing and programming trends of care for developmentally disabled residents showed a national trend of closing state-operated public institutional facilities.² The report defined institutional closures as completed or in-progress terminations of state-operated institutions for people with mental retardation and developmental disabilities (MR/DD) or closure of psychiatric facilities with designated MR/DD units. An in-progress closure implied the MR/DD state agency was implementing a legislatively sanctioned phase-out of the facility. The report noted the trend toward closing institutions gained momentum during the early-1980s recession and has continued. In reference to an earlier national survey, the report noted a 1985 study identified 24 closures in 12 states from 1970-1984. It further noted a 1988 national study of public spending identified 44 closures in 20 states, while the 2002 report identified 125 closures or planned closures by 2000 in 37 states. A more recent example of state institution closings is shown in the Ohio example below.

125 facilities to close in 37 states
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¹The Poplar Bluff/Sikeston habilitation center is comprised of two campuses of group homes, one located in Poplar Bluff and another in Sikeston and is called Southeast Missouri Residential Services Center.

²*The State of the States in Developmental Disabilities: 2002 Study Summary*, Coleman Institute for Cognitive Disabilities and Department of Psychiatry The University of Colorado, June 2002.

According to the director of Ohio's Department of Mental Retardation and Developmental Disabilities, the department does not have the money in its budget to keep two habilitation centers running. Based on a critical review of operating costs and reimbursements, capital needs and demand for admissions, the department identified two facilities to close, one by June 2005 and the other by June 2006. According to department officials, each resident at the two centers can either move to another developmental center or move to another facility in the community. The director said staff will conduct one-on-one meetings with the residents and their family or guardian about choices and options. The two centers had a total of 267 residents, 181 at one location and 86 at the other location. Relocation of residents is underway.

Operating costs could be reduced

The division could support its habilitation center residents more cost effectively by relocating residents of one of the six centers to the remaining five habilitation centers. If the division decides to close one facility, about \$5 to \$6.9 million (depending on the facility closed) in annual operating costs could be saved as shown in Table 1.1.

Table 1.1: Operating Costs of Habilitation Centers

Type of Savings	Habilitation Center I	Habilitation Center II
Fixed Costs ¹	\$1,540,658	\$1,957,326
Employee Costs ²	3,524,257	4,957,752
Totals	\$5,064,915	\$6,915,078

Source: SAO analysis based on budgetary fixed costs and employee costs from fiscal year 2002 of two habilitation centers.

¹Fixed costs based on budget expenditures for such items as utilities, maintenance, and supplies unrelated to direct care client expenditures for fiscal year 2002.

²Employee costs based on budget expenditures for non-direct care habilitation staff such as clerical, food preparation, and maintenance staff for fiscal year 2002. Employee costs include fringe benefits.

According to habilitation center officials, renovations at four of the five remaining facilities could add a sufficient number of Medicaid certified beds to accommodate residents from the closed facility. Habilitation center officials estimated between 136 and 160 certified beds could be added to four of the five remaining centers depending on the center closed. The officials estimated one-time costs of about \$1.8 million to accomplish the renovations of which about \$1.6 million would be used to renovate one building to house 30 or more residents. Another option, per a habilitation center official, would be to build four new group homes at the same estimated cost of about \$1.6 million to house up to 32 residents. However, the official said renovating the existing building would not only be quicker, but would provide office space in addition to client spaces.

If the division decides to close one center and expand other centers actual costs could be less than the estimated \$1.8 million for the following reasons:

- If given the choice, some residents might not move to one of the other residential centers opting to move to community group homes or an individualized supported living center (ISL). The division would not have to spend as much money to expand the other centers.

- The federal government through the Medicaid program will reimburse the state over the estimated useful life of the project, at about 60 percent of the costs to expand the other habilitation centers. However, even if the higher costs are needed to provide additional spaces, a year of the estimated annual savings would more than offset the costs.
- As is the case now, each individually operated center incurs significant annual fixed costs to support duplicate functions, while available capacity could support the census with fewer facilities. For example, each center incurs costs for administrative, dietetic, facility, and client-direct support functions. Some of these costs could be eliminated and others reduced if the census were combined into fewer locations. Costs to operate the centers range from about \$7 million to \$33.4 million each annually. See Table 1.2 for specific details on the state's habilitation centers.

Table 1.2: Habilitation Center Residents and Facility Costs - 2002

Habilitation Center	Date Opened	Number of Residents	Total Facility Cost (millions)¹	Average Cost Per Resident
Bellefontaine	1924	382	\$33.4	\$87,559
St. Louis ²	1974	235	22.9	97,243
Marshall	1901	311	25.0	80,320
Higginsville	1956	132	13.4	101,444
Nevada	1903	138	11.7	84,456
Southeast ²	1992	86	7.0	81,301
Totals		1,284	\$113.4	\$88,253

Source: Division central office officials

¹Operating costs and average cost per client do not include the annual medical expenditures, since community based waiver expenditures do not include Medicaid medical costs.

²St. Louis Developmental Disabilities Training Centers (St. Louis) and the Southeast Missouri Residential Services center (Southeast)

In addition, the division could realize further savings by avoiding projected long-term capital improvement costs and the potential sale of property, equipment, and facilities at the habilitation center selected for closing. For example, one potential closure site has 111 acres, with 49 of those acres currently leased to other entities, along with facilities and equipment currently used. This site also has projected capital improvement costs of \$1,609,646 in fiscal year 2004. Another potential closure site has 150 acres along with facilities and equipment and two capital improvements requests for fiscal year 2003 and fiscal year 2004 of \$609,714.

In discussions, division officials acknowledged that reducing the number of habilitation centers could be cost-effective, especially with current budget constraints; however, an undeterminable amount of federal revenues associated with these centers could be lost. Closing one of the centers may require relocating residents. However, two center superintendents said acquiring more staff to accommodate additional residents could be a significant problem. Acquiring more staff to support additional residents at the various centers could be impacted by which center is closed and its proximity to another center. Depending on proximity, some current staff may consider transferring to retain their jobs and state benefits. Also, if a large number of residents elect to move into a group home or ISL in their communities, the division could hire fewer additional employees.

Division officials have initiated actions to streamline center operations

According to division officials, although they have not closed entire habilitation centers they have initiated a deliberate, staged, and phased approach to reorganizing and streamlining the habilitation center system. For example, they have closed at least one 14-person group home at Higginsville, a 16-person skilled nursing unit at Marshall, and a 32-person skilled nursing unit at Midtown in St. Louis. They also developed a new policy (dated July 1, 2003) regarding accepting new clients with emphasis on placing them into community settings, versus seeking to place them into one of the six habilitation centers. According to the policy, census of all habilitation centers shall not exceed fiscal year 2002 funded levels for all state-operated habilitation centers. In addition, new admissions (with a few exceptions³) to state-operated centers shall be reviewed at 30, 60, and 90 days to determine if the person has continued need for habilitation center services. The policy also calls for persons currently residing in state-operated centers to be assessed for appropriate residential options at their annual planning meetings. At the time of assessment, all residential options will be reviewed with the person and/or their guardian.

However, although division officials acknowledged the need for overall habilitation center reorganization, at the time of our audit, they had no written plans in place regarding how or when overall habilitation center reorganization/downsizing might take place. The division also had no plans to do analysis that would show the most beneficial and cost-effective way to reorganize the system.

Conclusions

The analysis in this report suggests there are cost savings that can be realized; however, the division would have to make the suggested decisions taking into account other resident placement factors including level of care needed. Information division officials provided shows it is possible to increase the population at four of the six centers.

Recommendation

We recommend the Director, Division of Mental Retardation and Developmental Disabilities consider the feasibility of reducing the number of habilitation centers and providing alternate options for residents.

Department of Mental Health Comments

We appreciate the auditors work and concur with your recommendation. The Division of Mental Retardation and Developmental Disabilities has formalized a process to analyze each habilitation center campus. We will provide the State Auditor's Office with regular updates on our progress.

It is important to restate and emphasize that many factors impact habilitation center operations and subsequent changes to them. Those factors include identifying appropriate community

³ Forensic clients who cannot be placed anywhere but a state habilitation center.

contract provider options for consumers, provider rate issues, and difficulties that habilitation centers and community contract providers continue to have recruiting and retaining qualified staff, as well as quality assurance and monitoring functions for community contract providers.

Moving individuals out of poor quality buildings on Habilitation Center campuses is consistent with our values and plans. However, closing a habilitation center and transferring significant numbers of individuals from one campus to another is not the most appropriate way to proceed. Instead, we are committed to developing as many community alternatives as possible to serve individuals who require long term services and supports.

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

To determine if the Division of Mental Retardation and Development Disabilities' costs to provide services to its clients can be reduced through more efficient and effective management practices. Specifically, determine if any of the current division operated habilitation centers can be operated more economically.

Scope and Methodology

To accomplish the audit objectives we:

- Reviewed state laws and regulations that govern the management and operation of state-run habilitation centers, group homes, and ISLs.
- Reviewed division policies, procedures, and practices for managing and operating habilitation centers, group homes, and ISLs.
- Visited five of the six habilitation centers--Bellefontaine, St. Louis Developmental Disabilities Training Center, Marshall, Higginsville, and Nevada to (1) tour the facilities, (2) interview habilitation center officials and staff, and (3) obtain cost, staffing, and client data. We called officials at the Southeast Missouri Residential Services habilitation center to discuss operations and to obtain cost, staffing, and client data. We also interviewed division officials from the division's central office to obtain information regarding policies and practices used in managing and operating habilitation centers, group homes, and ISLs.
- Reviewed reports of previous audits or reviews completed by the State Auditor's Office or other internal or external organizations on habilitation centers, group homes, and ISLs.
- Performed detailed analysis of division cost data for operating the six habilitation centers, group homes, and ISLs for fiscal years 2000, 2001, and 2002. Analysis of costs to manage and operate all aspects of centers, homes, and ISLs included staffing costs, medical costs, fixed operating costs, and administrative overhead costs.
- Contacted other states to compare the management and costs of similar care provided to clients in habilitation centers, group homes, and ISLs.
- Reviewed a national study report dated June 2002 on developmental disabilities to obtain information regarding national trends and to compare Missouri's costs to operate centers, group homes, and ISLs to other states.